

## THE COMMUNITY LEADER'S LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S  
GRASSROOTS LEADERS

# New BCSC Provides Vital Support, Services for SC's Small Businesses

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knowledge on the  
University cam-  
pus.*

A small business loses its largest customer. Naturally, the business owner talks to other small business people, but what if professional help is needed. Where can support be found and options explored? Who can help with the short-term problem and then give advice on building and retaining a client base?

A chance conversation with just such a business owner led Tom Churan, a new South Carolinian, to explore bringing to South Carolina a program that helped him as a new business owner in Pennsylvania. Meanwhile, at Clemson University Michael Crino, professor of management, was looking for ways to give his students both theory and real world experience.

Churan, a visiting lecturer at Clemson, and Crino joined forces to create the Business Councils of South Carolina (BCSC).

BCSC, a nonprofit organization for small businesses in upstate South Carolina,

was their answer for helping both small business owners and university students. The program, launched this April, is funded by member dues and directed by an elected board.

Churan, president of Griffin Testing Products in Seneca, lost the kind of corporate support services that are vital to business success when he left Mellon Bank to start his own business over 15 years ago. The Small Business and Manufacturers Association at the University of Pittsburgh helped Churan and his partners tap into a broad network of support services and benefit pools which are often hard to find and too expensive for a "go-it-alone" small business. It was the model for the South Carolina program.

The BCSC provides access to benefits, general business assistance and referrals, and education opportunities to increase business viability to small businesses of 200 employees or less. Dues range from \$200 to \$500 a year

based on number of employees.

Benefits programs already available to members are group health insurance, disability insurance and a 401K program. Internet and long-distance telephone services can be accessed by members through BCSC at below market cost.

In addition to brokering benefits programs, the BCSC connects businesses with university consultants and their students, private service businesses, and other nonprofits with experience in solving business problems. The BCSC's goal is to provide referrals, not duplicate services or create a new bureaucracy. Its focus is quickly getting small business owners the help needed.

Questions about marketing, strategic planning, operations planning, financial management, accessing capital, technical consultation, advice on human re-

*(Cont. p. 4)*

ECONOMIC BRIEF NO. 33

# Insurance: Sharing Life's Risks

This series of economic briefs explores fundamental concepts in economics and community and economic development.

*It's a risky world out there. Market systems thrive on risks, because profits are the rewards for taking chances on new products, new ideas, new markets. But markets work even better if certain kinds of risks can be shared or transferred, because otherwise those risks might*

*hazards. But some hazards like flooding don't lend themselves to private insurance.*

*The average flood insurance premium for a large pool of customers would be too high for those on the mountain top and too low for those in the path of water. When it comes to floods, most people have a very low risk or a very high risk with hardly anyone in the middle. The message from the market is "don't build on the flood plain," but if the community or the nation doesn't agree*

*and pension plans are available, fewer firms are offering pensions, many workers do not take advantage of what is available, and more of what is offered is subject to the rewards and risks of the stock market.*

*Social Security plays a useful niche role in this market by offering a floor guarantee and a mandatory plan for those too poor, too short-sighted, too long-lived, or too unlucky in their investments to provide adequately for their old age. Social Security and Medicare are two rare instances where the government has become the direct provider.*

*The government can also use mandates, guarantees, and subsidies. The government requires auto insurance and bank deposit insurance. It subsidizes flood insurance and crop insurance. It offers guarantees of student loans and mortgage loans.*

*Insurance doesn't eliminate all financial risks. But whether offered by private firms or through government, it provides a valuable means of pooling risk, reducing an individual's risk, and encouraging people to undertake ventures they might otherwise find too risky.*

**... whether provided through private firms or through government, [insurance] provides a valuable means of pooling risk**

*discourage people from undertaking desirable activities. An important way in which risk is shared or transferred is through insurance.*

*With a large number of houses, cars, lives, or other assets in an insurance pool, it is possible to estimate the statistical probability of loss fairly accurately and to charge a premium that is low relative to the value of the amount at risk. The system is a good deal for both parties.*

*The market has done a pretty good job of pooling common risks for many insurable*

*with that message, what happens when disaster comes?*

*The federal government steps in. Offering insurance against flood and natural disasters just ensures that the people who are in the path of disaster will make some contribution to the cost of that disaster relief when the inevitable happens. But, unlike a private company, the government can take the money from another pocket if premiums are set too low.*

*Outliving assets is another risk that has not been adequately resolved with private insurance. Although annuities*

*The oldest known instance of a primitive insurance scheme was among merchants travelling along the Yangtze River in China.*

*A group of six merchants would each divide their cargo among all six ships. If one ship sank, each lost only one-sixth of his merchandise instead of one merchant losing everything.*

# Buying Flood Prone Property May Mean Lower Outlays by Federal Insurance Plan

With the return of hurricanes to the East Coast, South Carolinians along our heavily populated coastal stretch from North Myrtle Beach to Hilton Head are once again facing the prospect of damaging floods and property losses. While the exposure is far greater in some other states like Louisiana and Texas, Georgetown and six other locales in the state's coastal lowlands have a history of frequent and repeated flood damage.

Much of the property is insured against flood damage, so property owners build again in the same location, some of them only to be flooded again. Common sense suggests that people should be encouraged to locate on higher ground or farther from the water. But some of the most attractive places to live are along the coast or along rivers and lakes with flood risks. Is there a good answer to this dilemma?

In the 1890s a private insurance company in St. Louis offered flood insurance with disastrous results. Heavy losses the first year were followed by even higher losses the second year when the raging Mississippi River wiped out their reserve assets as well as their building. Since then, flood insurance has

been either unavailable or only available in subsidized form. The private company premium necessary to insure property in a high-risk area for flooding would be more than any sensible homeowner would be willing to pay.

The flood insurance subsidy comes from the federal government, that is, the taxpayer. So taxpayers far away from the raging waters are subsidizing those enjoying a daily view of the water and access to water-based recreation who are rarely our poorest or neediest residents. At the same time, the federal government has made and continues to make costly investments in flood control projects such as levees and river channelization.

The rationale for flood insurance is that Americans are always willing to provide disaster relief—fire, flood, earthquake, hurricane, drought, tornado. With flood insurance, at least the victims who knowingly choose to build in a high risk area will make some contribution to the cost of recovery and rebuilding.

The downside, however, is that the availability of subsidized insurance actually encourages people to build in flood risk areas and increases the exposure and the loss-

es. And with rebuilding, some properties collect again and again. The National Wildlife Federation (NWF) has recently analyzed records to find that many properties have received repeat insurance payments for flooding, often exceeding the value of the home.

In South Carolina, 35 single family homes have received flood insurance payments in excess of the home's value, and the state has 1,064 properties that have received flood insurance payments more than once for a total of \$58 million during the study period.

Nationally, NWF identified the top 300 communities, which represent only 1.6 percent of all communities in the National Flood Insurance Program but account for 20 percent of all flood loss payments and most of the repeated losses. Louisiana and Texas are at the top of the list, with South Carolina ranking eleventh.

In a recent report entitled *Higher Ground: Voluntary Property Buyouts in the Nations' Floodplains*, the National Wildlife Federation recommends a large scale voluntary buyout of these properties so that residents can rebuild in less flood-prone areas. Some of the funds spent on the buyout would eventually be re-

Major findings about South Carolina:

Georgetown is one of 300 locales in the nation that are most suitable for voluntary property buyout consideration because it has clusters of properties with a history of flooding about every six years.

Other S.C. communities identified as among the nation's top 200 communities for total flood insurance payments made to repetitive loss properties during the 18-year study period are Horry County, North Myrtle Beach, Charleston, Myrtle Beach, Folly Beach, and the Isle of Palms.

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**THE COMMUNITY LEADER'S LETTER**

The Community Leader's Letter is the quarterly newsletter of the Economic and Community Development Initiative at Clemson University, a joint program of the Strom Thurmond Institute, the Cooperative Extension Service, the S.C. Agricultural Experiment Station, the College of Business and Public Affairs, and the Office of Public Affairs. Program offices are in the Institute building.

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**New . . . .** (From p. 1)

source issues, opportunities for minority business, and international business development are typical topics small business owners are expected to bring to the BCSC.

**Buying . .** (From p. 3)

covered through lower outlays for disaster relief and flood control, and the land would be put to good use for recreation or wetlands. There are still unanswered questions about the impact on local governments, whose tax bases would be affected by the change in property use and loss of improvements. But it does make good sense to single out some of the areas where flood claims appear over and over again and look for an equitable solution to the use of flood-prone lands that is fair to both taxpayers

**State Surveys Planning Activities To Aid In Infrastructure Decisions**

The new Division of Regional Development has recently surveyed planning departments to assess the level and nature of local planning activities in communities in the state. The agency is a statewide coordinating agency for water and sewer infrastructure under the Budget and Control Board. The information will be used to help local governments meet their local economic development objectives and to implement the state's infrastructure planning activities. The survey found:

- Twenty-eight of 46 counties and 130 of 264 cities have adopted land use plans.
- Twenty-six counties have adopted zoning and 32 have subdivision regulations. Zoning is found in 142 cities and subdivision regulations in 87.
- Regional plans, where they exist, are infrequently used in preparing local comprehensive plans.
- If regional plans are used, transportation and sewer plans are used most often.
- However, only one in four counties and one in five cities implement their comprehensive plan's water and sewer recommendations.
- Statewide, a jurisdiction's comprehensive plan carries little weight among regional water providers (one in four consider it), and one in ten sewer providers consider it.

and property owners.

To obtain a copy of *Higher Ground*, contact Customer Services, the National Wildlife Federation, 703.790.4100. Major portions of the report can be found at <http://www.nwf.org/nwf/pubs/higher-ground/index.html> on the federation's Web site.